

PEAINE TOWNSHIP
CHARLEVOIX COUNTY, MICHIGAN

FINANCIAL STATEMENTS
AND OTHER FINANCIAL INFORMATION
for the year ended March 31, 2008

MASON & KAMMERMANN, P.C.
CERTIFIED PUBLIC ACCOUNTANTS
CHARLEVOIX, MICHIGAN

Peaine Township

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MASON & KAMMERMANN, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITOR'S REPORT

June 26, 2008

Members of the Township Board
Peaine Township
Beaver Island, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Peaine Township of Charlevoix County, Michigan as of and for the year ended March 31, 2008, which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Township's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of Peaine Township as of March 31, 2008, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison information, on pages 3 through 8 and 27 through 31, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Peaine Township's basic financial statements. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink that reads "Mason & Kammermann PC". The signature is written in a cursive, flowing style.

Mason & Kammermann, P.C.
Certified Public Accountants

Peaine Township

Management's Discussion & Analysis June 26, 2008

This section of Peaine Township's annual financial report presents our discussion and analysis of the financial performance of the Township during the fiscal year ended March 31, 2008.

Overview of the Financial Statements

This discussion and analysis introduces the Township's basic financial statements that follow this section. These financial statements are in the format to comply with Governmental Accounting Standards Board Statement 34 (GASB 34). Peaine Township's basic financial statements are comprised of three components: government-wide financial statements, fund financial statements and the notes to the financial statements. Additionally, this report also contains other supplementary information to the basic financial statements.

Government-wide Statements

The government-wide statements report information about the Township as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the Township's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid.

The Statement of Net Assets presents information on all of Peaine Township's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of Peaine Township is improving or deteriorating.

The Statement of Activities presents information showing how the government's net assets changed during the most recent fiscal year, on the modified accrual basis of accounting.

Fund Financial Statements

The fund financial statements provide information separated into related areas to demonstrate how resources have been allocated for specific activities or functions. Peaine Township, like other governmental entities, uses fund accounting to ensure compliance with the requirements of accounting standards and laws. Peaine Township uses two categories of funds, which are governmental and fiduciary funds.

Peaine Township

Management's Discussion & Analysis June 26, 2008

Governmental funds

Governmental funds are used to account for essentially the same functions as reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

Peaine Township maintains three individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, Airport Fund and Waste Management Fund, which are considered to be major funds. Data from the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of individual and combining statements elsewhere in this report.

The Township adopts an annual appropriated budget for its general fund and special revenue funds. A budgetary comparison statement has been provided for the general fund and other major funds to demonstrate compliance with this budget.

Fiduciary Funds

Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statement because the resources of those funds are not available to support the Township's own programs.

Peaine Township

Management's Discussion & Analysis June 26, 2008

Financial Analysis of the Township as a Whole

The table below summarizes the Township's net assets as of March 31, 2008 and 2006:

	2008	2006
Assets		
Current assets	\$ 702,489	\$ 782,897
Noncurrent assets	2,184,962	1,987,332
Total assets	2,887,451	2,770,229
Liabilities		
Current liabilities	48,040	24,750
Long-term debt, net current portion	373,234	399,182
Total liabilities	421,274	423,932
Net Assets		
Invested in capital assets, net related debt	1,789,022	1,565,444
Restricted	390,453	384,104
Unrestricted	286,702	396,749
Total net assets	\$ 2,466,177	\$ 2,346,297

The total net assets of the Township's are \$2,466,177. Net assets totaling \$390,453 are restricted for public safety, health and welfare and public works. The township has \$286,702 of unrestricted net assets, which could be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements.

Peaine Township

Management's Discussion & Analysis June 26, 2008

The following table shows how activities affected changes in net assets during the fiscal year and the previously audited year.

	2008	2006
Revenues:		
Program Revenues:		
Charges for services	\$ 224,782	\$ 127,123
Operating grants and contributions	103,619	28,127
Capital grants and contributions	77,000	-
General Revenues:		
Property taxes	481,752	449,613
Administrative fees	10,361	7,948
State shared revenues	25,108	29,131
Interest	3,692	6,040
Other	24,251	6,212
Total revenues	950,565	654,194
Expenses:		
Legislative	32,957	44,104
General government	114,046	109,861
Community & economic development	17,679	20,297
Health and welfare	86,048	85,427
Public safety	48,160	25,313
Public works	462,680	322,691
Recreation and culture	33,295	30,913
Interest on long-term debt	18,533	9,056
Total Expenses	813,398	647,662
Change in Net Assets	\$ 137,167	\$ 6,532

Revenue sources and changes

Total revenue from all sources totaled \$950,565 for governmental activities. This revenue consists of \$481,752 (50.7%) from property tax collection, \$224,782 (23.6%) from charges for services and \$103,619 (10.9%) from operating grants and contributions.

Peaine Township

Management's Discussion & Analysis June 26, 2008

Expenses

Using a full accrual basis of accounting, the Township spent \$813,398 on governmental activities. This equates to 56.9% public works, 14.0% on general government, 10.5% on health & welfare, 5.9% on public safety, 4.1% on legislative activities, 4.1% on recreation and culture, 2.3% on interest of long-term debt and 2.2% on community and economic development.

Financial Analysis of the Township's Funds

At March 31, 2008, the Township's governmental funds reported a combined cash balance of \$670,180, which is approximately \$33,652 more than last year.

Revenues in the General Fund exceeded expenditures by \$60,999, which was due to expenditures not reaching anticipated amounts and also revenues were higher than expected.

The Waste Management Fund had a \$52,076 decrease in its fund balance this year. This was also due to capital outlay expenditures being greater than anticipated.

The Airport Fund had a \$25,748 increase in its fund balance for the year. This was mainly due to revenues being greater than projected.

The nonmajor funds had a \$256 decrease in their collective fund balance.

General Fund Budgetary Highlights

The Uniform Budget Act of the State of Michigan requires that the Board approve the original budget for the upcoming fiscal year prior to its starting on April 1. Any amendments made to the operating budget must be approved by the Board prior to the close of the year on March 31.

The following schedule shows a comparison of the original fund budget, the final amended general fund budget and actual totals from operations:

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
Total Revenues	\$ 262,000	\$ 262,000	\$ 317,521	\$ 55,521
Total Expenditures	240,893	230,395	225,973	4,442
Excess of Revenues over Expenditures	<u>\$ 21,107</u>	<u>\$ 31,605</u>	<u>\$ 91,548</u>	<u>\$ 59,943</u>

Peaine Township

Management's Discussion & Analysis June 26, 2008

The General Fund budget was amended during the year. As additional information became known during the fiscal year, budget amendments were made to recognize the adjustment of revenue and/or planned expenditures related to various Township programs.

Capital Assets

At fiscal year ended March 31, 2008, the Township had \$2,184,962 of capital assets, net of accumulated depreciation. During the year, the Township invested \$5,504 in solely owned equipment. In agreement with St. James Township, both townships spent a combined total of \$50,757 on jointly owned land and improvements, \$86,526 on jointly owned buildings and improvements, and \$91,641 in jointly owned equipment.

Capital assets include all purchases of assets that exceed \$1,000. Capital assets include: land and land improvements, building and building improvements, equipment and furniture. The Township uses straight-line depreciation for all depreciable assets.

Long-Term Debt

The Township had \$395,940 of outstanding long-term debt as of March 31, 2008.

Requests for Information

This financial report is designed to provide a general overview of Peaine Township's finances for all of those with an interest in the township's finances. If you have questions concerning this report or requests for any additional financial information, please contact Peaine Township, 56825 Kings Highway, Beaver Island, MI 49782.

Peaine Township

Statement of Net Assets March 31, 2008

	Governmental Activities
<u>Assets</u>	
Current Assets	
Cash and cash equivalents	\$ 670,180
Due from other funds	545
Taxes receivable	31,764
Total current assets	702,489
Noncurrent Assets	
Capital assets	2,990,363
Less: accumulated depreciation	(805,401)
Total noncurrent assets	2,184,962
Total assets	2,887,451
<u>Liabilities and Net Assets</u>	
Current Liabilities	
Accounts payable	16,000
Accrued payroll taxes	9,334
Current portion of long-term debt	22,706
Total current liabilities	48,040
Long-Term Liabilities	
Long-term debt, net current portion	373,234
Total liabilities	421,274
Net Assets	
Invested in capital assets, net of related debt	1,789,022
Restricted	390,453
Unrestricted	286,702
Total net assets	\$ 2,466,177

The accompanying notes are a part of the financial statements.

Peaine Township

Statement of Activities For The Year Ended March 31, 2008

		Program Revenues			Net Revenue (Expense) and Change in Net Assets
	Expenses	Charges for Services	Operating Grants & Contributions	Capital Grants & Contributions	Total
Governmental Activities					
Legislative	\$ 32,957	\$ -	\$ -	\$ -	\$ (32,957)
General government	114,046	6,701	-	-	(107,345)
Community & economic development	17,679	4,460	-	-	(13,219)
Health & welfare	86,048	25,307	59,649	-	(1,092)
Public safety	48,160	-	-	-	(48,160)
Public works	462,680	188,314	43,970	77,000	(153,396)
Recreation and culture	33,295	-	-	-	(33,295)
Interest on long-term debt	18,533	-	-	-	(18,533)
Total Government Activities	<u>\$ 813,398</u>	<u>\$ 224,782</u>	<u>\$ 103,619</u>	<u>\$ 77,000</u>	(407,997)
General Revenues:					
Taxes:					
Property taxes					481,752
Administrative fees					10,361
State shared revenues					25,108
Interest					3,692
Other					24,251
Total general revenues					<u>545,164</u>
Change in Net Assets					137,167
Net Assets - April 1, 2007					<u>2,329,010</u>
Net Assets - March 31, 2008					<u>\$ 2,466,177</u>

The accompanying notes are a part of the financial statements.

Peaine Township

Governmental Funds Balance Sheet March 31, 2008

<u>Assets</u>	<u>General</u>	<u>Waste Management</u>	<u>Airport</u>	<u>Nonmajor Funds</u>	<u>Total</u>
Cash and cash equivalents	\$ 280,118	\$ 114,029	\$ 101,390	\$ 174,643	\$ 670,180
Due from other funds	545	-	-	-	545
Taxes receivable	15,373	4,786	3,204	8,401	31,764
Total assets	<u>\$ 296,036</u>	<u>\$ 118,815</u>	<u>\$ 104,594</u>	<u>\$ 183,044</u>	<u>\$ 702,489</u>
 <u>Liabilities and Fund Balances</u>					
Liabilities:					
Accounts payable	\$ -	\$ -	\$ -	\$ 16,000	\$ 16,000
Accrued payroll taxes	9,334	-	-	-	9,334
Total liabilities	9,334	-	-	16,000	25,334
Fund Balances:					
Unreserved	286,702	118,815	104,594	-	510,111
Unreserved, reported in nonmajor:					
Road fund	-	-	-	96,655	96,655
Fire fund	-	-	-	17,756	17,756
EMS fund	-	-	-	52,030	52,030
Liquor fund	-	-	-	603	603
Total fund balances	<u>286,702</u>	<u>118,815</u>	<u>104,594</u>	<u>167,044</u>	<u>677,155</u>
Total liabilities & fund balances	<u>\$ 296,036</u>	<u>\$ 118,815</u>	<u>\$ 104,594</u>	<u>\$ 183,044</u>	<u>\$ 702,489</u>

The accompanying notes are a part of the financial statements.

Peaine Township

Governmental Funds Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets March 31, 2008

Total Fund Balances - Governmental Funds	\$	677,155
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Amounts reported for governmental activities in the Statement of Net Assets are different because:

Long term liabilities are not due and payable in the current period and are not reported in the governmental funds balance sheet

Long-term debt, net current portion	(373,234)
Current portion of long-term debt	(22,706)

Capital assets used in governmental activities are not financial resources and are not reported in the governmental funds balance sheet.

Cost of capital assets	2,990,363
Accumulated depreciation	<u>(805,401)</u>

Total Net Assets - Governmental Activities	<u>\$</u>	<u>2,466,177</u>
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The accompanying notes are a part of the financial statements.

Peaine Township

Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances For The Year Ended March 31, 2008

	General	Waste Management	Airport	Other Nonmajor Funds	Total
Revenues:					
Property taxes	\$ 245,868	\$ 135,395	\$ 34,739	\$ 65,750	\$ 481,752
Administrative fees	10,361	-	-	-	10,361
State shared revenue	19,348	-	-	5,760	25,108
Contributions from governmental units	-	-	43,970	31,106	75,076
Grants	-	77,000	-	-	77,000
Charges for services	6,701	85,389	102,925	25,307	220,322
Licenses and permits	4,460	-	-	-	4,460
Special project contributions	28,543	-	-	-	28,543
Interest	531	797	433	1,931	3,692
Other	1,709	556	4,231	17,755	24,251
Total revenues	317,521	299,137	186,298	147,609	950,565
Expenditures:					
Current:					
Legislative	32,957	-	-	-	32,957
General government	94,667	-	-	-	94,667
Community and economic development	17,679	-	-	-	17,679
Health and welfare	-	-	-	86,048	86,048
Public safety	26,627	-	-	-	26,627
Public works	-	188,946	152,957	59,409	401,312
Recreation and culture	27,912	-	-	-	27,912
Capital outlay	26,131	162,267	-	-	188,398
Debt service:					
Principal	-	-	7,061	14,956	22,017
Interest	-	-	3,032	15,501	18,533
Total expenditures	225,973	351,213	163,050	175,914	916,150
Excess of Revenues Over (Under) Expenditures	91,548	(52,076)	23,248	(28,305)	34,415
Other Financing Sources (Uses)					
Transfers in	-	-	2,500	28,049	30,549
Transfers out	(30,549)	-	-	-	(30,549)
Total other financing sources (uses)	(30,549)	-	2,500	28,049	-
Net Change in Fund Balance	60,999	(52,076)	25,748	(256)	34,415
Fund Balances - April 1, 2007	225,703	170,891	78,846	167,300	642,740
Fund Balances - March 31, 2008	\$ 286,702	\$ 118,815	\$ 104,594	\$ 167,044	\$ 677,155

The accompanying notes are a part of the financial statements.

Peaine Township

Governmental Funds Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities For The Year Ended March 31, 2008

Net Change in Fund Balances - Total Governmental Funds	\$ 34,415
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Amounts reported for governmental activities in the statement
of activities are different because:

Governmental funds report capital outlays and intangible assets
as expenditures in the statement of activities. These costs are
allocated over their estimated useful lives as depreciation or
amortization.

Depreciation expense	(107,663)
Capital outlay	188,398

Repayment of bond principal is an expenditure in the governmental
funds, but not in the statement of activities (where it reduces
long-term debt)

	<u>22,017</u>
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Changes in Net Assets - Governmental Activities	<u><u>\$ 137,167</u></u>
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The accompanying notes are a part of the financial statements.

Peaine Township

Fiduciary Fund Statement of Net Assets March 31, 2008

Assets

Cash

\$ 546

Liabilities

Due to other funds

\$ 546

The accompanying notes are a part of the financial statements.

Peaine Township

Fiduciary Fund Statement of Changes in Fiduciary Net Assets For The Year Ended March 31, 2008

Additions:

Property Tax Collections for:	
Primary government	\$ 344,243
Component unit	110,854
Other governments	<u>2,067,401</u>
Total additions	2,522,498

Deductions:

Property Tax Distributions for:	
Primary government	344,243
Component unit	110,854
Other governments	<u>2,067,401</u>
Total distributions	<u>2,522,498</u>

Change in Net Assets	-
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Fiduciary Net Assets - April 1, 2007	<u>-</u>
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Fiduciary Net Assets - March 31, 2008	<u><u>\$ -</u></u>
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The accompanying notes are a part of the financial statements.

Peaine Township

Notes To Financial Statements For The Year Ended March 31, 2008

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Peaine Township (Township) conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the Peaine Township.

A. Reporting Entity

The Township operates under a Board-Supervisor form of government and provides the following services: public safety (fire), public improvements, planning and zoning, and general administrative services.

In accordance with generally accepted accounting principles and Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity* and GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*, these financial statements present the Local Unit (primary government). The criteria established by the GASB statements for determining the reporting entity includes oversight responsibility, fiscal dependency, and whether the financial statements would be misleading if data were not included. Based on these criteria, the Township has blended component units.

Blended Component Units

Peaine and St. James Townships are the two townships on Beaver Island. These townships support the below-listed common facilities on a 50-50 basis. The facilities supported are controlled by and blended in the comprehensive financial statements of:

PEAINE TOWNSHIP

Beaver Island Waste Management Fund
Emergency Medical Services Fund
Beaver Island Airport Fund

ST. JAMES TOWNSHIP

Beaver Island Fire Department Fund
Cemetery Fund

Peaine Township

Notes To Financial Statements For The Year Ended March 31, 2008

The Beaver Island Yacht Dock is also operated jointly and controlled by St. James Township. Revenues were sufficient to support the yacht dock operations for the year ended March 31, 2008. Operating deficiencies are shared on the following basis:

	<u>PEAINE TOWNSHIP</u>	<u>ST. JAMES TOWNSHIP</u>
Yacht Dock	33 1/3 pct.	66 2/3 pct.

The financial statements for those funds that are controlled by St. James Township, may be obtained by contacting St. James Township on Beaver Island, Michigan.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e. the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segments are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Peaine Township

Notes To Financial Statements For The Year Ended March 31, 2008

Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

Property taxes, state-shared revenue, and interest associated with current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the government.

General Fund – The General Fund is the general operating fund of the Township. It is used to account for all financial resources except those that are required to be accounted for in another fund.

Special Revenues Fund – Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to expenditures for specified purposes.

Agency Fund – The Agency Fund is used to account for assets held by the Township in a trustee capacity or as an agent for individuals, private organizations, other governments and/or other funds. Agency Funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

D. Assets, Liabilities, and Net Assets or Equity

Cash and Cash Equivalents

Cash is comprised of the amount of funds in bank accounts.

Cash Equivalents consisting of certificates of deposit are stated at cost or amortized cost, which approximates market.

Peaine Township

Notes To Financial Statements For The Year Ended March 31, 2008

Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "due to/from other funds".

Capital Assets

Capital assets, which include property, plant and equipment are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Property, plant and equipment are depreciated using the straight-line method over the following useful lives.

Land Improvements	20 years
Buildings and Improvements	40 years
Equipment	5 years

Long-term Obligations

In the government-wide financial statements, outstanding debt is reported as liabilities. Bond issuance costs, bond discounts or premiums, and the difference between the reacquisition price and the net carrying value of refunded debt are capitalized and amortized over the terms of the respective bonds using a method that appropriates the effect of interest method.

The governmental fund financial statements recognize the proceeds of debt and premiums as other financing sources of the current period. Issuance costs are reported as expenditures.

As of March 31, 2008, the Township had \$395,902 of outstanding long-term debt.

Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Peaine Township

Notes To Financial Statements For The Year Ended March 31, 2008

Use of Estimates

The Township used estimates and assumptions in preparing financial statements in accordance with generally accepted accounting principles. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenditures. Actual results could vary from the estimates that were assumed in preparing the financial statements.

NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgets and Budgetary Accounting

The Township follows these procedures in establishing the budgetary data reflected in the financial statements:

1. Prior to April 1, the Supervisor submits to the Township Board a proposed operating budget for the fiscal year commencing the following April 1. The operating budget includes proposed expenditures and the means of financing them.
2. Public hearing is conducted to obtain taxpayer comments.
3. The budget is legally enacted through passage of an ordinance prior to April 1.
4. The budget is adopted at the total fund level on a basis consistent with generally accepted accounting principles. Budget amounts are as originally adopted, or as amended by the Township Board during the year.
5. Appropriations expire at the end of the fiscal year.

Excess of Expenditures over Appropriations in Budgeted Funds

The Uniform Budgeting and Accounting Act, PA 2 of 1968, as amended, (MCL 141.421 et seq.) provides that a local governmental unit shall not incur expenditures in excess of the amount appropriated. Peaine Township's budgeted and actual expenditures for the funds budgeted have been shown on a function basis.

Peaine Township

Notes To Financial Statements For The Year Ended March 31, 2008

During the year, the Township incurred expenditures in the Waste Management Fund and Airport Fund in excess of the amounts appropriated, as follows:

Fund/Function	Original Budget	Final Budget	Actual	Variance
Waste Management Fund	\$ 258,000	\$ 258,000	\$ 351,213	\$ 93,213
Airport Fund	11,457	11,457	23,248	11,791

Accumulated Fund Deficits

The Peaine Township had no funds with an accumulated fund balance/retained earnings deficit at March 31, 2008.

NOTE 3 – DEPOSITS AND INVESTMENTS

Michigan Compiled Laws, Section 129.91, authorizes the Local Unit to deposit and invest in the accounts of federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or federal agency obligation repurchase agreements; banker's acceptance of United States banks; commercial paper rated within the two highest classifications, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan

Cash and Cash Equivalents – At March 31, 2008 the carrying amount of the Township's cash and cash equivalents were \$670,180.

Federal Depository Insurance – Of the above balances, \$489,556 was covered by federal depository insurance and U.S. Government guarantees. The remaining \$180,624 was uninsured and uncollateralized. State statutes prohibit security in the form of collateral, surety bonds or another form to be taken for the deposit of public funds. The township may experience significant fluctuations in deposit balances during the year.

Peaine Township

Notes To Financial Statements For The Year Ended March 31, 2008

NOTE 4 – PROPERTY TAXES

Property taxes attach as an enforceable lien (due and payable) on property upon levy. Taxes are levied in July and December and are payable from July through February 28. The Township bills and collects its own property taxes and also taxes for other governmental units. Collections of the other governmental units' taxes and remittances of them to the units are accounted for in the Agency Fund. Property tax revenues are recognized when levied.

The Township is permitted by state law, subject to State Headlee and Truth-in-Taxation provision, to levy taxes up to \$1.00 per \$1,000 of assessed valuation for general governmental services other than the payment of principal and interest on long-term debt and unlimited amounts for payment of principal and interest on general obligation long-term debt.

The tax rates for the year ended March 31, 2008 were as follows:

<u>PURPOSE</u>	<u>RATE/ ASSESSED VALUATION</u>
Operations:	
General Operations (Allocated)	.9275 per \$1000
General Operations (Voted)	2.0147 per \$1000
Waste Transfer Station (Voted)	1.1250 per \$1000
Roads (Voted)	.9720 per \$1000
Airport (Voted)	.6400 per \$1000
Fire Protection (Voted)	.9763 per \$1000

NOTE 5 – CAPITAL ASSETS

Capital asset activity of the primary government for the current year was as follows:

	<u>Balance of April 1, 2007</u>	<u>Additions</u>	<u>Disposal</u>	<u>Balance of March 31, 2008</u>
Capital assets				
Land and Improvements				
Solely Owned	\$ 37,075	\$ -	\$ -	\$ 37,075
Jointly Owned (100% of assets)	320,651	50,757	-	371,408
Total Land and Improvements	357,726	50,757	-	408,483
Buildings and Improvements				
Solely Owned	754,984	-	-	754,984
Jointly Owned (100% of assets)	1,304,456	86,526	-	1,390,982
Total Buildings and Improvements	2,059,440	86,526	-	2,145,966

Peaine Township

Notes To Financial Statements For The Year Ended March 31, 2008

Equipment and Furniture				
Solely Owned	55,843	5,054	-	60,897
Jointly Owned (100% of assets)	<u>283,376</u>	<u>91,641</u>	<u>-</u>	<u>375,017</u>
Total Equipment and Furniture	<u>339,219</u>	<u>96,695</u>	<u>-</u>	<u>435,914</u>
Total Capital Assets	2,756,385	233,978	-	2,990,363
Less: Accumulated Depreciation:	<u>(697,738)</u>	<u>(107,663)</u>	<u>-</u>	<u>(805,401)</u>
Total Capital Assets	<u>2,058,647</u>	<u>126,315</u>	<u>-</u>	<u>2,184,962</u>

Depreciation expense was charged to the Township's functions as follows:

General Government	\$ 19,379
Public Safety	21,533
Public Works	61,368
Recreation & Culture	<u>5,383</u>
	<u>\$ 107,663</u>

NOTE 6 – LONG-TERM OBLIGATIONS

A summary of long-term obligations at March 31, 2008, and transactions related thereto for the year then ended as follows:

	<u>Balance</u> <u>April 1, 2007</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>March 31, 2008</u>
Notes Payable:				
\$110,000 governmental obligation bond payable in annual installments of \$10,000, through May, 2014, plus interest of 4.5 percent per annum Charlevoix State Bank	\$ 90,000	\$ -	\$ 10,000	\$ 80,000
\$79,470 installment note payable in annual installments of \$10,093, through April, 2013, including interest of 4.6 percent per annum Michigan Department of Transportation for Airport expansion and improvements	64,963	-	7,061	57,902

Peaine Township

Notes To Financial Statements For The Year Ended March 31, 2008

\$270,000 note payable in semi-annual installments through April, 2034, the note bears interest of 4.5 percent per annum and is payable to the United States Department of Agriculture

262,994	-	4,956	258,038
<u>\$ 417,957</u>	<u>\$ -</u>	<u>\$ 22,017</u>	<u>\$ 395,940</u>

The annual principal requirements for the years ending thereafter are as follows:

<u>Year ended March 31</u>	<u>General Long-Term Obligations</u>
2009	\$ 22,706
2010	23,061
2011	23,431
2012	23,819
2013	25,225
2014 and thereafter	<u>277,698</u>
Total	\$ <u>395,940</u>

NOTE 7 – RECEIVABLES AND PAYABLES

Receivables for the primary government at March 31, 2008 are as follows:

	<u>General Fund</u>	<u>Trust and Agency Fund</u>
Interfund Receivable	\$ 546	\$ -
Interfund Payable	-	546
	<u>\$ 546</u>	<u>\$ 546</u>

NOTE 8 – PENSION PLAN

Elected members of the Township Board are eligible to participate in the Peaine Township Pension Plan administered by Travelers Insurance Company, a defined contribution plan. There are no unfunded liabilities. The Township is required to contribute 5 percent of each participant's annual compensation. Participant contributions are not required, but voluntary non-deductible contributions are allowed. Retirement expense totaled \$7,640 for the year based on eligible wages. Total payroll expense for all funds for the year ended March 31, 2008 was \$200,450.

Peaine Township

Notes To Financial Statements For The Year Ended March 31, 2008

NOTE 9 – FUND EQUITY RESERVATIONS AND DESIGNATIONS

The Waste Management Fund has \$118,815 restricted for health and welfare.

The Airport Fund has \$104,594 restricted for public safety.

The EMS Fund has \$52,030 designated for health and welfare.

The Fire Fund has \$17,756 restricted for public safety.

The Road Fund has \$96,655 restricted for public works.

The Liquor Fund has \$603 designated for public safety.

NOTE 10 – RISK MANAGEMENT

The Township is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets; error and omissions; injuries to employees and natural disasters.

The Township belongs to the Michigan Township Participating Plan, which currently operates as a common risk management and insurance program for various municipalities throughout the state. The Township pays an annual premium for its general insurance and workman's compensation coverage. The Plan is self-sustaining through member premiums and 100 percent reinsures through commercial companies.

Peaine Township

Statement of Revenues, Expenditures and Changes in Fund Balances Budgetary Comparison - General Fund For The Year Ended March 31, 2008

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
Revenues:				
Property taxes	\$ 218,000	\$ 218,000	\$ 245,868	\$ 27,868
Administrative fees	5,000	5,000	10,361	5,361
State shared revenues	19,000	19,000	19,348	348
Charges for services	4,500	4,500	6,701	2,201
Licenses and permits	7,500	7,500	4,460	(3,040)
Special project contributions	-	-	28,543	28,543
Interest	3,000	3,000	531	(2,469)
Reimbursements	5,000	5,000	1,709	(3,291)
Total revenues	262,000	262,000	317,521	55,521
Expenditures:				
Legislative				
Township Board				
Salaries	10,028	10,028	10,028	-
Payroll taxes	5,000	5,000	900	4,100
Pension	5,000	5,000	3,575	1,425
Supplies	15,000	15,000	2,670	12,330
Professional services	3,000	3,000	3,606	(606)
Dues and subscriptions	875	875	963	(88)
Education and training	6,000	6,000	540	5,460
Insurance	10,000	10,000	7,024	2,976
Other expenses	9,178	9,178	3,651	5,527
Total legislative	64,081	64,081	32,957	31,124
General Government				
Township Supervisor				
Salaries and wages	15,107	15,107	15,107	-
Clerical	3,000	3,000	2,538	462
Office supplies	1,500	1,500	487	1,013
Total township supervisor	19,607	19,607	18,132	1,475
Township Assessor				
Salaries and wages	14,623	14,623	14,623	-
Supplies	5,000	5,000	3,386	1,614
Total township assessor	19,623	19,623	18,009	1,614

Peaine Township

Statement of Revenues, Expenditures and Changes in Fund Balances Budgetary Comparison - General Fund For The Year Ended March 31, 2008

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
Township Clerk				
Salary, clerk	14,270	14,270	14,270	-
Wages, deputy clerk	2,500	2,500	2,568	(68)
Supplies	1,500	1,500	765	735
Total township clerk	18,270	18,270	17,603	667
Elections	2,500	2,500	1,192	1,308
Township Board of Review	1,000	1,000	645	355
Township Treasurer				
Salary, treasurer	14,270	14,270	14,270	-
Wages, deputy treasurer	2,500	2,500	2,568	(68)
Supplies	4,000	4,000	2,298	1,702
Total township treasurer	20,770	20,770	19,136	1,634
Building and Grounds				
Utilities	9,000	9,000	8,992	8
Repairs and maintenance	16,500	16,500	6,819	9,681
Contracted services	5,000	5,000	4,139	861
Total building and grounds	30,500	30,500	19,950	10,550
Total General Government	112,270	112,270	94,667	17,603
Community and Economic Development				
Planning and Zoning				
Salary	5,502	5,502	5,502	-
Contracted services	16,000	5,502	12,177	(6,675)
Total community and economic development	21,502	11,004	17,679	(6,675)
Public Safety				
Fire	8,000	8,000	26,627	(18,627)

Peaine Township

Statement of Revenues, Expenditures and Changes in Fund Balances Budgetary Comparison - General Fund For The Year Ended March 31, 2008

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
Recreation and Culture				
Historical society	9,348	9,348	9,348	-
Township parks	24,000	24,000	15,814	8,186
Other	3,000	3,000	2,750	250
Total recreation and culture	36,348	36,348	27,912	8,436
Capital Outlay	-	-	26,131	(26,131)
Total expenditures	242,201	231,703	225,973	5,730
Excess of Revenues Over Expenditures	19,799	30,297	91,548	61,251
Other Financing Sources (Uses)				
Transfers out	-	-	(30,549)	(30,549)
Net Change in Fund Balance	19,799	30,297	60,999	30,702
Fund Balance - April 1, 2007	225,703	225,703	225,703	-
Fund Balance - March 31, 2008	<u>\$ 245,502</u>	<u>\$ 256,000</u>	<u>\$ 286,702</u>	<u>\$ 30,702</u>

Peaine Township

Statement of Revenues, Expenditures and Changes in Fund Balances Budgetary Comparison - Waste Management Fund For The Year Ended March 31, 2008

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
Revenues:				
Property taxes	\$ 68,000	\$ 68,000	\$ 135,395	\$ 67,395
Grants	68,000	68,000	77,000	9,000
Charges for services	92,000	92,000	85,389	(6,611)
Interest	500	500	797	297
Reimbursements	-	-	556	556
Total revenues	228,500	228,500	299,137	70,637
Expenditures:				
Public Works				
Salaries and wages	77,500	77,500	78,745	(1,245)
Payroll taxes	7,000	7,000	1,155	5,845
Employee benefits	6,500	6,500	8,506	(2,006)
Pension	5,000	5,000	4,065	935
Insurance	8,500	8,500	5,485	3,015
Maintenance	6,000	6,000	12,117	(6,117)
Supplies	23,500	23,500	17,270	6,230
Utilities	9,000	9,000	7,491	1,509
Boat freight	25,000	25,000	22,309	2,691
Disposal expenses	39,500	39,500	29,305	10,195
Other	5,500	5,500	2,498	3,002
Total public works	213,000	213,000	188,946	24,054
Capital Outlay	45,000	45,000	162,267	(117,267)
Total expenditures	258,000	258,000	351,213	(93,213)
Excess of Revenues over Expenditures	(29,500)	(29,500)	(52,076)	(22,576)
Fund Balance - April 1, 2007	170,891	170,891	170,891	-
Fund Balance - March 31, 2008	\$ 141,391	\$ 141,391	\$ 118,815	\$ (22,576)

Peaine Township

Statement of Revenues, Expenditures and Changes in Fund Balances Budgetary Comparison - Airport Fund For The Year Ended March 31, 2008

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
Revenues:				
Property taxes	\$ 39,200	\$ 39,200	\$ 34,739	\$ (4,461)
Charges for services	62,000	62,000	102,925	40,925
Contributions from governmental units	38,800	38,800	43,970	5,170
Reimbursements	1,000	1,000	4,231	3,231
Interest	200	200	433	233
Total revenues	141,200	141,200	186,298	45,098
Expenditures:				
Public Works				
Wages	5,100	5,100	4,675	425
Employee benefits	600	600	358	242
Repairs and maintenance	15,500	15,500	19,834	(4,334)
Utilities	14,000	14,000	15,026	(1,026)
Insurance	6,000	6,000	5,315	685
AWS operation	4,500	4,500	2,500	2,000
Supplies	22,950	22,950	11,389	11,561
Fuel	51,000	51,000	93,860	(42,860)
Total public works	119,650	119,650	152,957	(33,307)
Debt Service				
Principal	7,061	7,061	7,061	-
Interest	3,032	3,032	3,032	-
Total debt service	10,093	10,093	10,093	-
Total expenditures	129,743	129,743	163,050	(33,307)
Excess of Revenues over Expenditures	11,457	11,457	23,248	11,791
Other Financing Sources				
Transfers in	5,000	5,000	2,500	(2,500)
Net Change in Fund Balance	16,457	16,457	25,748	9,291
Fund Balance - April 1, 2007	78,846	78,846	78,846	-
Fund Balance - March 31, 2008	\$ 95,303	\$ 95,303	\$ 104,594	\$ 9,291

Peaine Township

Other Supplementary Information Balance Sheet Nonmajor Funds March 31, 2008

<u>Assets</u>	<u>Road Fund</u>	<u>Fire Fund</u>	<u>EMS Fund</u>	<u>Liquor Fund</u>	<u>Total</u>
Cash	\$ 101,689	\$ 20,321	\$ 52,030	\$ 603	\$ 174,643
Taxes receivable	4,966	3,435		-	8,401
Total assets	<u>\$ 106,655</u>	<u>\$ 23,756</u>	<u>\$ 52,030</u>	<u>\$ 603</u>	<u>\$ 183,044</u>
 <u>Liabilities and Fund Balances</u>					
Liabilities, Accounts payable	\$ 10,000	\$ 6,000	\$ -	\$ -	\$ 16,000
Fund Balance, Unreserved	<u>96,655</u>	<u>17,756</u>	<u>52,030</u>	<u>603</u>	<u>167,044</u>
Total fund balances	<u>96,655</u>	<u>17,756</u>	<u>52,030</u>	<u>603</u>	<u>167,044</u>
Total liabilities & fund balances	<u>\$ 106,655</u>	<u>\$ 23,756</u>	<u>\$ 52,030</u>	<u>\$ 603</u>	<u>\$ 183,044</u>

Peaine Township

Other Supplemental Information Statement of Revenues, Expenditures and Changes in Fund Balance Nonmajor Funds For The Year Ended March 31, 2008

	Road Fund	Fire Fund	EMS	Liquor Fund	Total
Revenues:					
Property taxes	\$ 62,315	\$ 3,435	\$ -	\$ -	\$ 65,750
State grants	-	5,760	-	-	5,760
Contributions from governmental units	-	2,500	28,606	-	31,106
Charges for services	-	-	25,307	-	25,307
Interest	1,309	161	461	-	1,931
Other income	8,223	-	9,532	-	17,755
Total revenues	71,847	11,856	63,906	-	147,609
Expenditures:					
Health and Welfare					
Salaries and wages	-	-	30,073	-	30,073
Ambulance	-	-	11,631	-	11,631
Operating expenses	-	-	27,189	-	27,189
Office supplies	-	-	10,130	-	10,130
Education and training	-	-	5,611	-	5,611
Other	-	-	1,414	-	1,414
Total health and welfare	-	-	86,048	-	86,048
Public Works					
Road maintenance	23,540	-	-	-	23,540
Dust control	35,747	-	-	-	35,747
Other expenses	122	-	-	-	122
Total public works	59,409	-	-	-	59,409
Debt Service					
Principal	10,000	4,956	-	-	14,956
Interest	3,825	11,676	-	-	15,501
Total debt service	13,825	16,632	-	-	30,457
Total expenditures	73,234	16,632	86,048	-	175,914
Deficiency of Revenues over Expenditures	(1,387)	(4,776)	(22,142)	-	(28,305)
Other Financing Sources (Uses)					
Transfers In	-	-	28,049	-	28,049
Net Change in Fund Balance	(1,387)	(4,776)	5,907	-	(256)
Fund Balance - April 1, 2007	98,042	22,532	46,123	603	167,300
Fund Balance - March 31, 2008	\$ 96,655	\$ 17,756	\$ 52,030	\$ 603	\$ 167,044

Peaine Township

Statement of Tax Levy and Collections March 31, 2008

	<u>Millage Rate</u>	<u>Adjusted Levy</u>	<u>Collected</u>	<u>Returned Delinquent</u>
Charlevoix County:				
Operations	4.5288	\$ 288,281	\$ 276,214	12,067
Seniors	0.3853	24,542	22,553	1,989
Medical Care Facility	0.7464	84,085	46,728	37,357
County Transit	0.2408	15,321	14,092	1,229
Recycle	0.1444	9,061	8,448	613
Beaver Island Public School	17.7908	920,129	852,041	68,088
Char-Emmet ISD	2.7395	174,444	160,373	14,071
Beaver Island District Library	0.9000	57,287	52,689	4,598
SET	6.0000	376,835	365,948	10,887
Township:				
General	3.4229	215,776	200,403	15,373
Fire	0.6739	42,886	39,451	3,435
Roads	0.9720	61,872	56,905	4,967
Airport	0.6402	40,682	37,478	3,204
Waster Transfer	1.1250	70,650	65,864	4,786
Medical Center	1.9440	122,724	114,454	8,270
Tax Collection Fee	-	24,866	23,406	1,460
Total	<u>42.2540</u>	<u>\$ 2,529,441</u>	<u>\$ 2,337,047</u>	<u>\$ 192,394</u>
Percent of Levy Collected	<u>92.39%</u>			

MASON & KAMMERMANN, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

HUGH E. MASON
VELDA K. KAMMERMANN

110 Park Avenue
Charlevoix, Michigan 49720
Telephone (231) 547-4911
Facsimile (231) 547-5911

June 26, 2008

To the Township Board
Peaine Township
Beaver Island, Michigan

In planning and performing our audit of the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Peaine Township as of and for the year ended March 31, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered Peaine Township's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Township's internal control. Accordingly, we do not express an opinion on the effectiveness of the Township's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. We believe that the following deficiencies constitute material weaknesses:

Segregation of Duties

A properly designed system of internal control segregates the accounting responsibilities from employees who have access to physical assets such as cash, investments and payroll, from authorization and approval of transactions and account reconciliations. The small size of the administrative staff precludes a complete segregation of duties resulting in more than a remote risk that material misstatements could occur and not be detected during normal activities.

Preparation of Financial Statements

During the course of our audit, it was noted employees and/or management have limited technical expertise to prepare the Township's financial statements and notes to the financial statements in accordance with accounting principles generally accepted in the United States of America. The preparation of the Township's financial statements and notes in accordance with accounting principles generally accepted in the United States of America is the responsibility of management. Management is responsible for establishing, maintaining, and monitoring internal controls, and for the fair presentation in the financial statements of financial position, results of operations, and cash flows, including the notes to the financial statements, in conforming with accounting principles generally accepted in the United States of America.

The Township, as is common with smaller entities, has historically relied on its independent external auditors to assist in the preparation of the government-wide financial statements and footnotes as part of its external financial reporting process. Accordingly, the Township's ability to prepare financial statements in accordance with accounting principles generally accepted in the United States of America is based, in part, on its reliance on its external auditors, who cannot by definition be considered part of the government's internal controls.

The result of this condition is that the Township lacks internal controls over the preparation of financial statements in accordance with accounting principles generally accepted in the United States of America, and instead relies, in part, on its external auditors for assistance with this task.

Budgeting

Public Act 621 of 1978, Section 18(1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated. During the year ended March 31, 2008, Peaine Township incurred expenditures that exceeded the amount appropriated for the Waste Management Fund and the Airport Fund, as shown in the body of the financial statements.

We suggest that the Board on a periodic basis, review appropriations as compared to actual expenditures and amend the budget as necessary, prior to incurring the expenditures to avoid incurring expenditures in excess of appropriations.

Peaine Township
June 26, 2008
Page 3

This communication is intended solely for the information and use of management, the Board of Trustees, and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,

A handwritten signature in black ink, appearing to read "Mason & Kammermann P.C.", written in a cursive style.

Mason & Kammermann, P.C.
Certified Public Accountants

MASON & KAMMERMANN, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

HUGH E. MASON
VELDA K. KAMMERMANN

110 Park Avenue
Charlevoix, Michigan 49720
Telephone (231) 547-4911
Facsimile (231) 547-5911

June 26, 2008

To the Board of Trustees
Peaine Township

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Peaine Township for the year ended March 31, 2008, and have issued our report thereon June 26, 2008. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards

Our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Peaine Township are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2008. We noted no transactions entered into by the Township during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

The disclosures in the financial statements are neutral, consistent, and clear. Certain financial statement disclosures are particularly sensitive because of their significance to financial users.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated June 26, 2008.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

Auditing standards require us to report to you significant audit findings or issues. Following are the significant findings we noted during our audit:

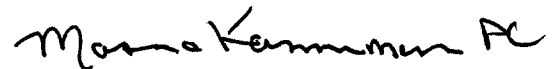
- There is a lack of segregation of duties in the accounting function due to the limited number of accounting personnel. This condition is generally inherent in organizations the size of Peaine Township, where corrective action is not practical, and to the extent possible, duties are allocated between accounting personnel to mitigate the risk of material asset misappropriation.
- Peaine Township does not have procedures in place to prepare financial statements in accordance with U.S. generally accepted accounting principals, and to present required financial statement disclosures. However, small organizations with limited resources and personnel inherently have difficulty in establishing and maintaining effective internal accounting controls related to the preparation and review of the formal year-end financial statements.

Additionally we have presented other matters for your consideration in the same letter dated June 26, 2008.

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Township's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the Board of Trustees and management of Peaine Township and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

A handwritten signature in black ink, appearing to read "Mason & Kammermann PC", written in a cursive style.

Mason & Kammermann, P.C.
Certified Public Accountants